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July 12, 1975

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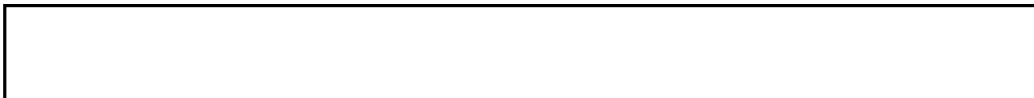
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PORTUGAL

Before moving toward more open opposition, the Portuguese Socialist Party appears to be giving the ruling Armed Forces Movement time to respond to the demands the party set down as conditions for returning to the government.

At a press conference last night, Socialist leader Soares again lashed out at Portugal's military leaders for failing to live up to their word to return the newspaper *Republica* to Socialist editors and for leading the nation toward a police state. He made no calls for mass demonstrations, but instead pointed to Portugal's serious economic condition and its need for assistance from Western Europe.

Soares also noted that the Socialists' withdrawal from the government would not affect the party's role in the constituent assembly, which has a clear mandate from the people. The Communist Party, however, has reportedly served warning that it may withdraw from the assembly if the moderates continue to smother debate on "fundamental questions of the revolutionary process."

According to press reports from Lisbon, a delegation of Popular Democratic leaders met with President Costa Gomes yesterday and will now wait until Monday for the Revolutionary Council to respond to the party's conditions for staying in the government.

Sources close to Prime Minister Goncalves are quoted in the press as saying that if the Popular Democrats withdraw, leaving only the Communists and their sympathizers in the Popular Democratic Movement in the coalition with the military, Goncalves could no longer continue. In fact, any reorganization of the government as a result of the Socialists' withdrawal is likely to be used by Goncalves' growing number of opponents in the military to renew their efforts to oust him.

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Soares will undoubtedly have difficulty in controlling more militant members of his party if he elects to hold to a soft line in the hope that military moderates will exert their influence to reverse the decisions on the *Republica* issue and the formation of popular assemblies. The Socialist Party reportedly already has plans to move to a policy of direct confrontation with strikes and mass demonstrations.

The great mass of Socialist supporters have demonstrated little taste for the tactic of confrontation that could result in violence, but even a relatively small group could cause considerable problems. One Socialist source who claims to represent just such a group told the US defense attache in Lisbon that within the next 15 days the Socialists will embark on a campaign of armed assaults and kidnappings in northern Portugal. The source claims to have the support of some moderate military officers as well, but complained that Soares had so far refused to give his group the go ahead. [REDACTED]

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ARGENTINA

President Peron yesterday yielded to strong pressure from the military, politicians, and labor, removing her controversial adviser, Lopez Rega, from his posts as welfare minister and presidential private secretary. She failed to strengthen her position substantially, however, since she filled the vacated posts with men identified with him.

Taking over the Welfare Ministry is a former private secretary to Lopez Rega and more recently the number two official of the ministry. The President's new private secretary has until now held a post within the office of the presidency, where he reportedly has been a close associate of Lopez Rega. These appointments make it likely that Mrs. Peron's confidant will continue to have considerable influence in the government.

Moreover, the President has retained Economy Minister Rodrigo, a Lopez Rega protege, and the object of bitter criticism for his attempts to implement austerity measures. Other cabinet officers who remain are said to be linked to the ousted minister, and another new appointment appears to be a particularly lackluster figure.

In view of these moves, it will be difficult, if not impossible, for the President to convince the many opponents of Lopez Rega that he does not in fact still pull the strings. Further pressure for more changes, and possibly for the exile of Lopez Rega, are likely.

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UNITED KINGDOM

Following through on last week's warning that tough new measures to curb inflation would be forthcoming, Prime Minister Wilson yesterday announced the details of his new program. Wilson aims to cut inflation from its current 40-percent annual rate to 10 percent by next summer. The linchpin of the new policy is a "voluntary" ceiling on wage increases of \$13.20 a week (about 10 percent), with a wage freeze for all workers earning more than \$18,700 a year.

Wilson stopped short of outlawing wage demands in excess of his guidelines. Instead he plans to enforce the program by:

- Prohibiting private employers from passing on to consumers any wage cost increases if they agree to wage claims over the "voluntary" ceiling.
- Enforcing strict cash limits in nationalized industries so that excessive wage settlements would lead only to unemployment.
- Limiting wage increases for government workers to no more than the guidelines.
- Seeking new legislation that would allow the central government to withhold grants to local governments that breach the wage limits.

Wilson ruled out union demands for an immediate six-month price freeze as unrealistic, but he did promise that plans to phase out food subsidies would be delayed.

Union support is critical to success of the new plan, and Wilson has given the unions less than they demanded as a condition for their backing. Earlier this week, the Trades Unions Congress narrowly voted to support a voluntary \$13.20 pay limit, if the government would agree to freeze prices and do something to curtail rising unemployment. Nothing in the new policy will directly reduce Britain's rising unemployment. In fact, if it becomes necessary to enforce the sanctions against employers, there will be more, rather than less, unemployment.

Although formal union support for the program is problematical, a union-wide confrontation with the government probably can be avoided. The unions have, at least for the time being, achieved their major goal of avoiding statutory limits on wage increases and legal sanctions against unions that violate the pay guidelines.

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The public is in a mood to support the government's program. The sharp acceleration in wages and prices since the first of the year has created widespread feelings that firm government action is required. Even some unions have come to believe that unemployment is wiping out the gains their members have made in keeping wage increases ahead of price boosts.

The weaker unions, faced with shrinking employment, will be willing to trade wage gains of uncertain value for greater job security. Even if militant unions with strong market positions persist in outsized wage demands, the new measures will stiffen employer resistance. With strengthened public support, Wilson may be able to face down even these unions.

The Labor government can expect about a six-month grace period for its new policy. Major wage negotiations do not resume until October. By then, much of the cost pressure built up by past increases in wages, taxes, and depreciation of the pound will probably have been translated into higher consumer prices. Unions, employers, and the government all realize that the new program will mean that prices will rise faster than wages for a while at least.

By early next year, however, unemployment probably will have risen to about 6 percent—the highest in 35 years—and inflation, while moderated, still will exceed an annual rate of 10 percent. In these circumstances, public support for the government's policy will erode, and the unions are apt to increase pressures to loosen controls and stimulate the economy. If Wilson gives in too hastily to avoid a confrontation with labor, he will risk losing whatever gains have been made in controlling inflation.

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ITALY

The Italian Socialist Party's apparent preference for local governmental alliances with the Communist Party is putting an additional strain on the government of Prime Minister Moro.

The regional and local elections, in which the Communists scored heavy gains and the Socialists moderate ones, left the latter with the option in many areas of linking up with the Communists or the Christian Democrats. One such area was Liguria, where this week the Socialists chose to join a Communist-led government rather than a center-left regional coalition with the Christian Democrats. The action adds a fourth region to the Italian "red belt," where the Communists predominate but share power with the Socialists.

The other center-left parties cannot object very strongly to the Ligurian arrangement; the Communists and Socialists controlled the regional capital, Genoa, before the elections, and Liguria was the only new region in which the two parties captured a clear majority last month.

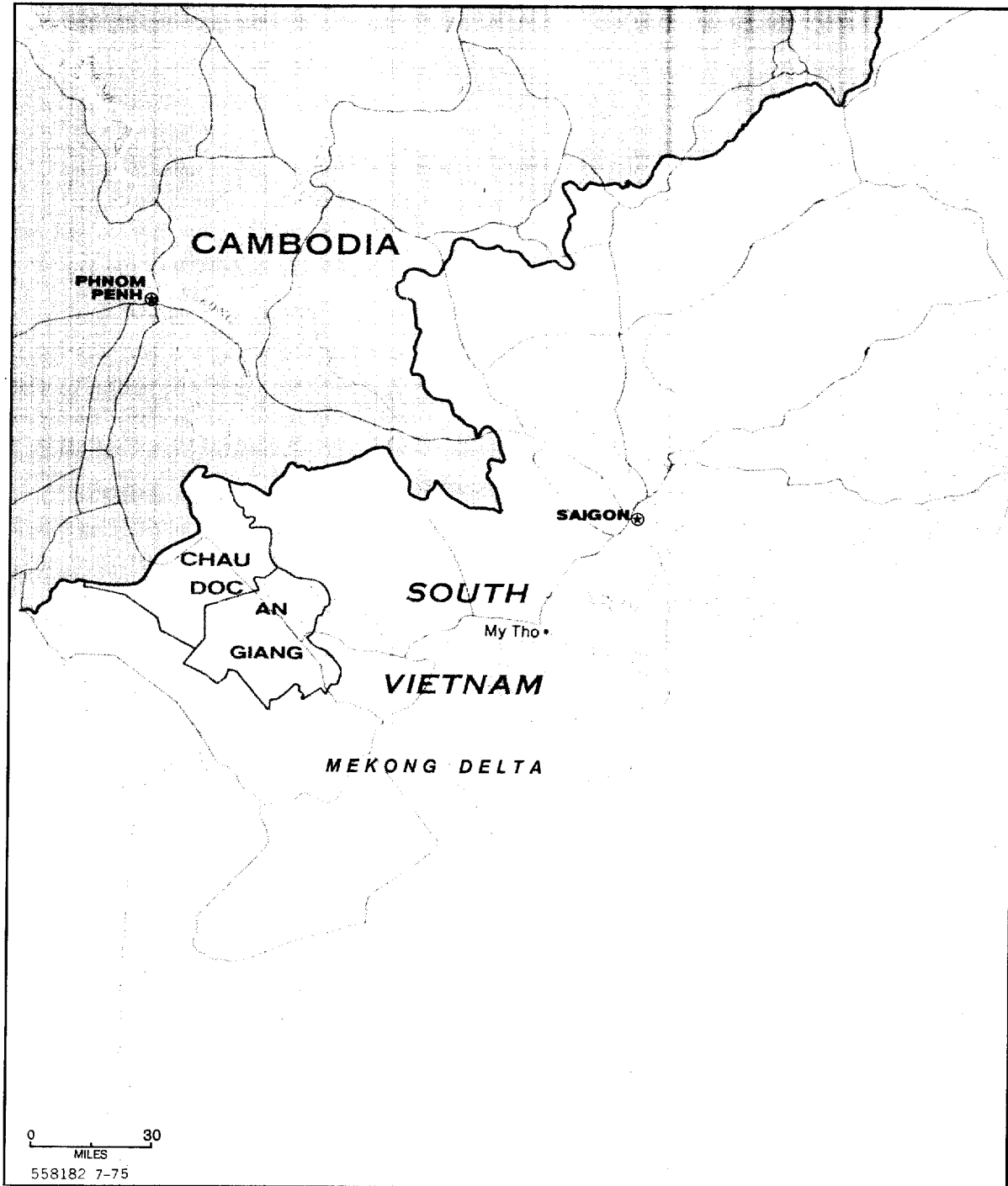
The Socialists' apparent preference for a government with the Communists in the northern region of Piedmont is more likely to provoke trouble. There, the two parties do not quite have a majority. In Piedmont, the Socialists are inclined to set up a minority administration with the Communists, despite the fact that a center-left government would have a four-seat majority.

Two members of Moro's cabinet, whose home base is Piedmont, are threatening to bring down the Moro government by resigning if the Socialists abandon the center-left formula there.

The Socialists are also complicating Moro's efforts on the national level to secure agreement among the four center-left parties on legislation to deal with some of Italy's urgent problems. Socialist leader De Martino made it clear this week that his party will not commit itself to any legislative package before it knows the results of the Christian Democratic Party's national council on July 19. The Socialists have been demanding that the Christian Democrats revise their leadership and policies in response to the leftward shift in the election.

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VIETNAM

Resistance activities and the numerous rumors rampant in Saigon continue to concern the communists.

Large numbers of former South Vietnamese soldiers are reportedly continuing to resist the communists throughout the country. The main focus of this resistance appears to center in the Mekong Delta. The communists claim that remnants of one former government division are using guerrilla tactics in the My Tho area and other former units are cooperating with the Hoa Hao religious sect in Chau Doc and An Giang provinces.

According to the communist-controlled press, five to ten incidents of robbery, extortion, sniping, and the distribution of "antirevolutionary propaganda" are being reported nightly in each of Saigon's districts. [REDACTED]

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The communists have repeatedly proclaimed their intention to move toward greater civilian management of governmental administrative functions once the present military committees restore order. These organizations' continued functioning lends credibility to the reports of resistance to the communists.

Although this resistance presents no major threat to the communists' control, it could become a formidable problem should an effective organization be developed. At present, however, there is insufficient information available to assign a better than 50-percent probability to the development of such an organization. CIA and the Department of State/Bureau of Intelligence and Research, however, believe that it is extremely unlikely any effective opposition organization will develop. [REDACTED]

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ANGOLA

Sharp fighting has broken out again in Luanda between forces of the Popular Movement for the Liberation of Angola and the National Front for the Liberation of Angola, the territory's two largest nationalist groups. There has been extensive use of mortars, rockets, and heavy machine guns.

The Popular Movement appears to have initiated the violence and is concentrating its attacks against National Front buildings and installations in the city. Some of these sites apparently have fallen, thereby weakening the National Front's military presence in Luanda.

The last round of heavy fighting in late May and early June left the Popular Movement in a strong position between Luanda and National Front areas in northern Angola. Since then, the Popular Movement has severely limited the National Front's access to the city, and the latter is probably short of supplies and ammunition. Portuguese forces seem to be in evidence throughout Luanda, but are not interfering, according to the US consul general.

Until the violence began Tuesday night, Angola had been relatively calm since the heads of the three nationalist groups met in Kenya in mid-June and signed an "agreement" to ease tensions. Occasional skirmishes have taken place in rural areas outside Luanda, but none has escalated into a major clash. Fighting in these areas could now intensify, in reaction to developments in Luanda.

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NICARAGUA

A report from Nicaraguan President Somoza of an imminent invasion by "revolutionaries" from Cuba is most likely the product of his exaggerated fears of leftist opposition to his rule.

Somoza claims that two boats with arms, equipment, and men from Cuba are to land on the Caribbean coast. He says the "invasion force" includes members of the Sandinist National Liberation Front, a small terrorist organization that has been active in Nicaragua off and on since the early 1960s. [REDACTED]

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Because the terrorist group has been active recently, Somoza may be concerned that it is plotting another spectacular operation. In December 1974, the group held a number of prominent Nicaraguans captive for three days and forced Somoza to give in to their demands. The terrorists involved in the incident and some imprisoned colleagues were flown to Cuba as part of the ransom.

The Cubans are hostile to the Somoza regime, and Fidel Castro himself admires the Nicaraguan terrorist group, but Havana no longer supports extremist groups in operations that have little chance for success. There are no indications that the Cubans presently regard the situation in Nicaragua as favorable to Somoza's overthrow. [REDACTED]

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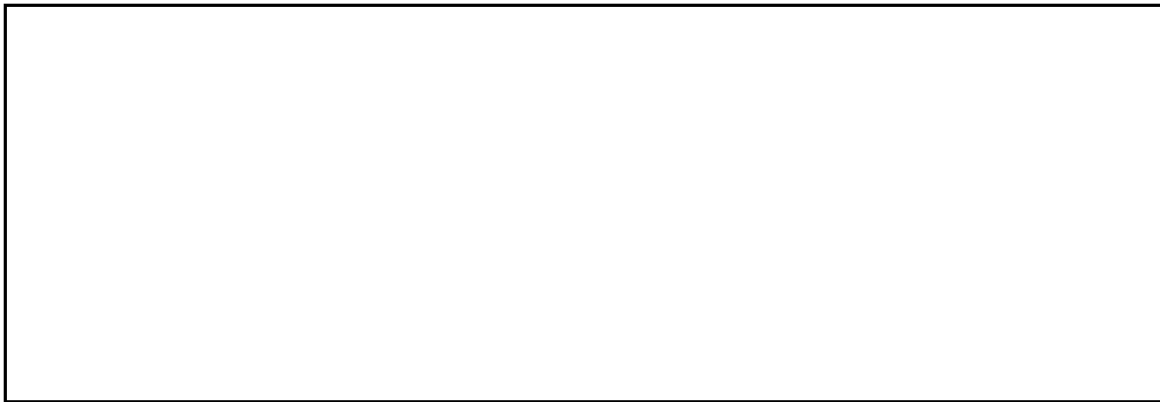
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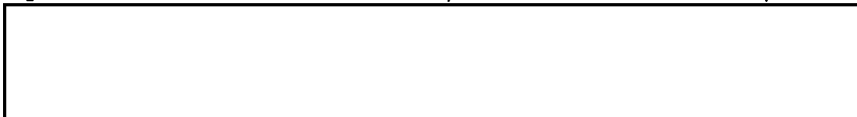
PORTUGAL-USSR: The first port call by a Portuguese navy ship to the Soviet Union will take place between September 9 and 15, when the training ship Sagres, a three-masted sailing vessel, visits Leningrad. The invitation was said to have been extended by the Soviet ambassador in Lisbon to a "high official," presumably Prime Minister Goncalves, rather than through normal protocol channels. While the visit is opposed by most naval officers, including Chief of Staff Admiral Pinheiro de Azevedo, pressure from leftist officers and Goncalves has forced them to acquiesce. A reciprocal visit by a Soviet warship would presumably follow. The issue is driving still another wedge between leftists and more moderate officers in the navy, as well as the ruling Revolutionary Council.



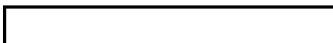
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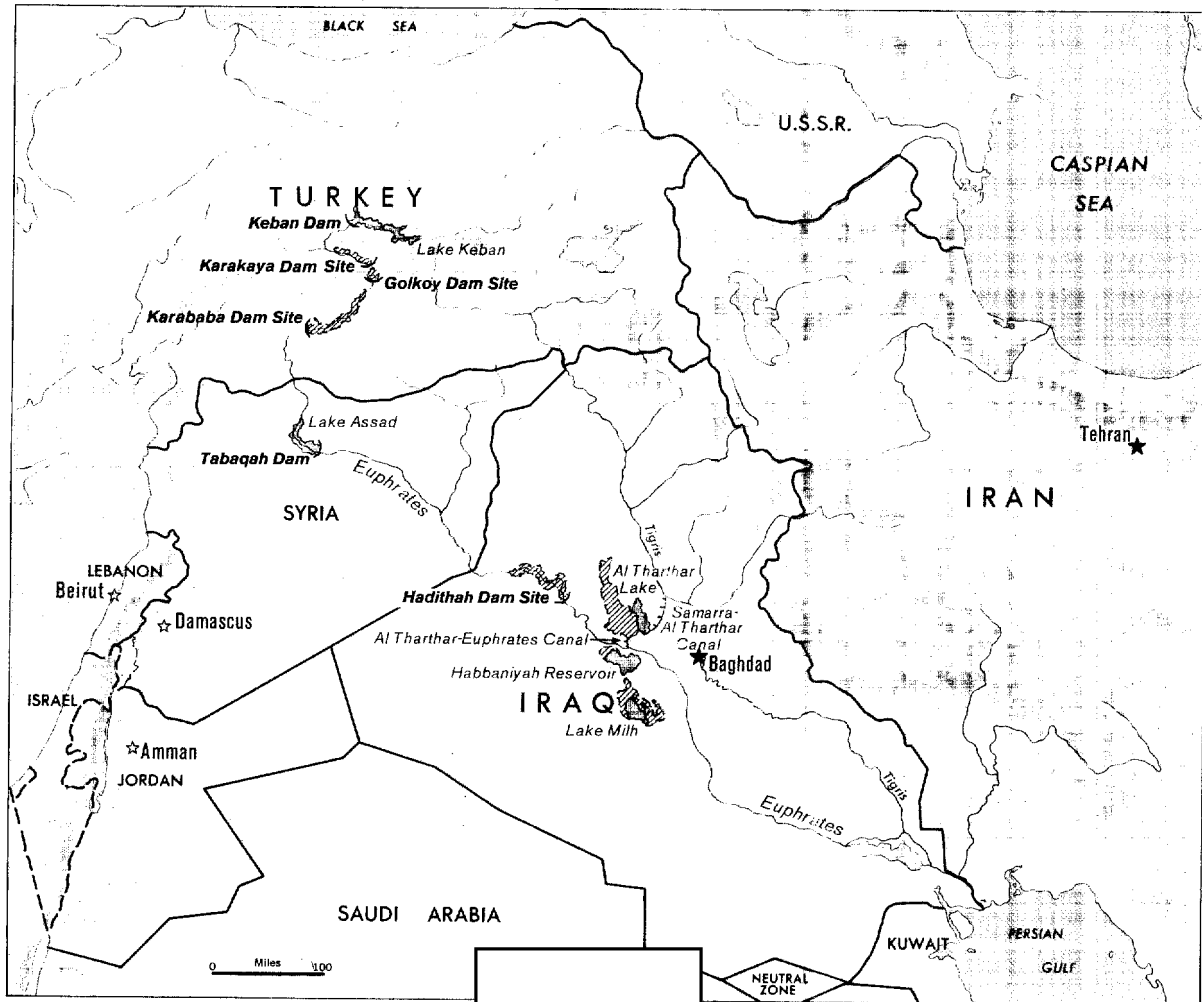
EC: The EC finance ministers have authorized the EC's financial affairs commissioner, Wilhelm Haferkamp, to renew his discussions with Saudi Arabia, Kuwait, and Venezuela about securing loans for the EC's oil facility. This action was taken on Thursday, following formal requests for loans by Italy and Ireland. These countries are apparently seeking loans of \$300 million and \$200 million, respectively. Until now, the oil producers that Haferkamp had approached had not been forthcoming because no EC member had formally requested a loan. Haferkamp will now try to negotiate firm loans of \$1.2 billion, at market interest rates, from the oil producers.



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Euphrates Development Projects



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ANNEX

Euphrates River Dispute

The current discord among the riparian states of Turkey, Syria, and Iraq will intensify unless a permanent agreement is made concerning the distribution of the Euphrates River waters. Turkey and Syria are continuing to implement plans for further development of the river, while Iraq is forging ahead to complete its major project on the river. Water shortages for these projects will be reflected in the industrial as well as the agricultural sectors of the countries concerned. Iraq's inability to fill its Habbaniyah reservoir to provide adequate irrigation this summer will once again aggravate the situation. Completion of the canal between Al Tharthar Lake and the Euphrates will help relieve, but probably not eliminate, the problem.

The massive Euphrates River development schemes being implemented by the three countries have been initiated unilaterally. Although numerous attempts have been made to reach formal agreements concerning exploitation of this international waterway, only one short-term multilateral agreement was reached. Each of the multimillion-dollar projects is of major significance to the future economy of the concerned riparian state. The projects, which will be the basis for considerable agricultural and industrial growth, have already caused numerous political disputes.

Prior to 1958, Iraq had ambitious plans and had made the greatest progress in developing the river. The revolution in July 1958, however, followed by six years of political turmoil, retarded progress. Meanwhile, Turkey and Syria prepared extensive riverine projects.

The three states use approximately 19 billion cubic meters of Euphrates water per year. If irrigation projects presently planned were completed, projected consumption from the river would increase to 40.4 billion cubic meters per year—nearly 50 percent more than the average annual basin runoff.

Turkey began construction of the giant Keban Dam and hydroelectric project on the waterway's upper reaches in 1964. The reservoir—Lake Keban—is more than half filled, and an average flow should top it off by October 1976. It will be the second largest fresh-water lake in Turkey—125 kilometers long—and will have a capacity of 30.7 billion cubic meters.

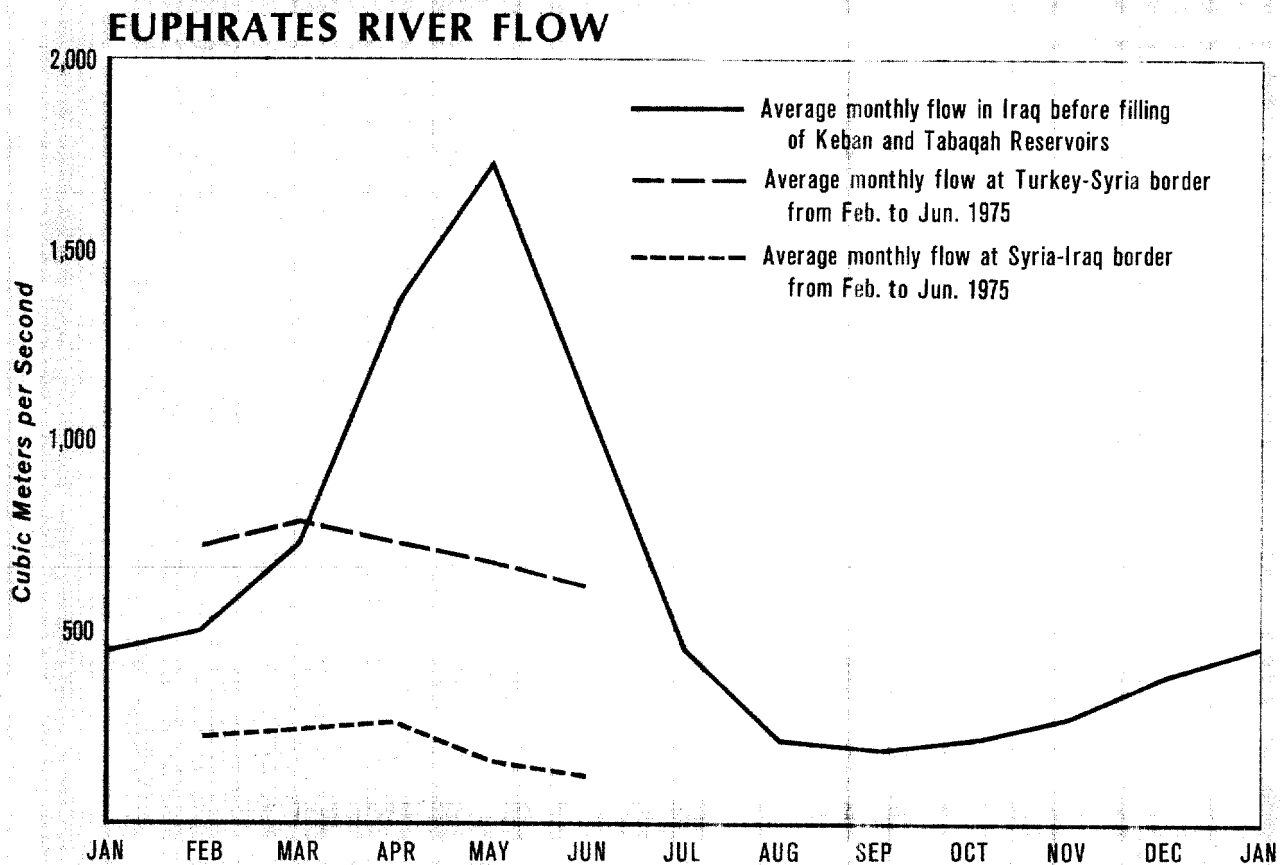
Keban is Turkey's largest hydroelectric installation. Two of the proposed eight generators are in operation and two others are near completion; the four generators will increase the country's already strained electric power resources by two thirds.

Present and Future Water Requirements for Irrigation from the Euphrates River

COUNTRY	Length of River (kilometers)	Planted Areas (acres)	Water Requirements (billion cubic meters)	Future Planted Areas (acres)	Future Water Requirements (billion cubic meters)
TURKEY	1,005	333,660	1.5	3,108,500	13.6
SYRIA	660	840,150	4.8	1,429,500	7.9
IRAQ	1,200	3,044,000	12.8	4,535,500	18.9
Total	2,865	4,217,750	19.1	9,073,500	40.4

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Although its main function is generation of electricity, the project will also regulate the waters of the Euphrates. Therefore, it is a keystone to further development of the waterway's basin within Turkey and the other riparian states.

Ankara plans to build three more major dams on the lower Euphrates between Keban and the Syrian border. In contrast to Keban, these will be primarily for irrigation. Construction of the dam and power plant at Karakaya has been started and should be finished by 1981; the other two will be built at Golkoy and Karababa. Completion of electric power facilities at all three projects will take 15 years, and an additional 17 will be required to finish the irrigation networks. Irrigation of 1.7 million acres of high-quality agricultural lands in adjacent plains will result in about a 30-fold increase in farm production from the developed lands and will largely satisfy Turkey's growing requirements for such products.

These projects will also make a major contribution to Turkey's energy supplies and provide the basis for heavy industry in the eastern provinces. The reservoirs of the three-dam scheme will have a capacity of 25.8 billion cubic meters, an amount roughly equal to the annual discharge of the Euphrates between Keban and the Syrian border.

Syria started work in 1968 on the massive Euphrates Tabaqah Dam project, which is designed for irrigation, generation of electricity, and flood control. The reservoir, Lake Assad, started filling in July 1973—the beginning of the normal low-water period for the Euphrates. When full, probably late this year, the reservoir will be 80 kilometers long and have a capacity of 12 billion cubic meters—about 45 percent of the annual discharge of the river in Syria. Known as Syria's Aswan, the undertaking ultimately will double the area under irrigation and quadruple the installed electric-power capacity of the country.

Last year, Iraq decided to build a giant dam near Hadithah that will supply 80 percent of the irrigation and industrial water requirements of the country. The dam will create a lake 155 kilometers in length. In addition, Baghdad is rushing to complete a 37-kilometer canal between Al Tharthar Lake and the Euphrates. Started in 1972, this project should be completed by 1976 and will increase considerably the amount of water available for irrigation by feeding 500 cubic meters per second of Tigris River water into the Euphrates.

The simultaneous filling of the Keban and Tabaqah reservoirs has precipitated a crisis in Iraq, where the reduced flow of the Euphrates has endangered 35 percent of the country's farmland and has limited water supplies for domestic consumption.

Specifications of Dams Under Construction or Planned on the Euphrates

Specifications	TURKEY				SYRIA	IRAQ
	Keban	Karakaya	Golkoy	Karababa	Tabaqah	Hadithah
Height (meters)	207	180	90	120	65	58
Length (meters)	1,095	400	320	1,250	4,500	6,500
Capacity (millions cubic meters)	30,700	9,580	170	16,090	12,000	8,200
Cost (\$ million)	500	*	*	*	400	710
Source of Credit	World Bank, European Investment Bank, US, W. Germany, Italy, and France	*	*	*	USSR World Bank	USSR
Purpose						
Electric Power Capacity (1,000 kilowatts)	1,240	1,500	500	800	800	500
Irrigation (planned acres)	400,000	None	None	1,730,000	2,471,000	3,700,000
Flood Control and Stream Regulation	Yes	Yes	Yes	Yes	Yes	Yes
Reservoir						
Length (kilometers)	125	166	29	152	80	155
Width (kilometers)	6	1.8	0.2	2.4	8	3
Depth (meters)	151	162	64	107	48	Est. 50
Surface (square kilometers)	750	298	7	369	640	500
Catchment Area (square kilometers)	64,000	16,446	472	11,328	Not available	Not available

**The Lower Euphrates project, consisting of dams at Karakaya, Golkoy, and Karababa, will cost \$1 billion. The source of credit is not available.*

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The flow there has been greatly reduced from the average monthly rate that prevailed before the filling of the two reservoirs, although Syria is receiving as much as 900 cubic meters per second from Turkey. Iraq's water crisis will intensify as the normal low-water period—from August to February—approaches.

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